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Practical aspects of patent litigation in Japan

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ABSTRACT: In Japan, litigation is basically regulated by the Japanese Code of Civil Procedure (CCP). This code was enacted in 1890, and the basic structure of litigation has not changed substantially since then. However, it is expected that the CCP will be reformed in a few years. Japan does not have special courts for patent infringement litigation. The 1993 statistics of the intellectual property division of the Tokyo District Court show that 40% of cases were settled, 26% were withdrawn, and 30% were given judgments. Unlike in the US, the Japanese system does not allow extensive pre-trial discovery. In principle, each party to the litigation has to gather evidence itself. The Japanese Patents Act provides for several presumptions by which a patent holder's infringement litigation is facilitated. Generally, in tort cases, a plaintiff must prove infringement, negligence of willfulness, and loss or damage to the plaintiff. Japanese courts not recognize punitive damages or treble damages. Only damages of a compensatory nature can be awarded.

TEXT: When thinking about filing a patent application in Japan, notwithstanding the high costs involved, you may also want to consider how you can enforce your rights in cases of infringement. Under the Japanese Patents Act, a patent holder is able to seek an injunction to prevent alleged infringements from continuing, and can sue for damages and take other measures necessary for the recovery of business reputation.

In this article, some of the practical features of patent infringement litigation in Japan will be discussed, mainly from the foreign patent holder's point of view. Procedural issues and, to some extent, substantive issues peculiar to patent litigation are dealt with.

Litigation is basically regulated by the Japanese Code of Civil Procedure (CCP). This Code was enacted in 1890 and the basic structure of litigation has not changed substantially since then. However, in the time since its enactment, a number of areas in which there is room for improvement have been identified, and it is expected that the CCP will be reformed in a few years. The Judicial Committee of the Ministry of Justice is working on an outline for a reform proposal and, upon receiving comments from various organizations, including the courts, the Japanese Federation of Bar Associations, other government ministries and business organizations, it will proceed with the necessary steps for reform.

This article will discuss some of the features expected to be included in the new legislation.

Courts and attorneys

Japan does not have special courts for patent infringement litigation (although for litigation regarding determinations made by the Patent Office, the Tokyo High Court has exclusive jurisdiction). A plaintiff may file a lawsuit in any district court if the jurisdictional requirements are

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met. The Tokyo District Court and the Osaka district court have special divisions for patent and other intellectual property litigation. Several judges (at last count there were seven in Tokyo) work almost exclusively on intellectual property cases (including copyright and unfair competition cases) for a limited period, usually a few years. These two courts also have court researchers who are seconded from the Patent Office. The researchers are technical experts who are expected to assist the judges. Since other district courts do not have such researchers, these experts will sometimes, upon request, visit other courts to assist judges. In the outline reform proposal, one amendment under consideration would allow the plaintiff in an intellectual property litigation to elect to bring a lawsuit in either Tokyo or Osaka irrespective of other jurisdictional requirements. The Bar Association is against the proposal as it may represent an inconvenience to the defendant.

The court consists of either one judge or three judges. In the case of the Tokyo District Court, all intellectual property cases are heard by courts comprised of three judges. Provisional measure cases are heard by one judge.

In Japan, there are so-called patent attorneys (Benrishi) who are experts in patent and other intellectual property issues, especially in the filing and prosecution processes of the Patent Office. They cannot represent a party in most litigation proceedings without an ordinary attorney (Bengoshi), except in those cases involving determinations made by the Patent Office. Self-representation is allowed, although it is uncommon in patent litigation. Japan does not have a jury system.

Complaint filing

The patent litigation process begins when a plaintiff files a complaint which states claims and causes of action. In general, plaintiffs wish a speedy trial and it is therefore preferable that a plaintiff attaches evidence to the complaint. This will expedite the litigation procedure.

A plaintiff must pay the required filing fee by attaching a revenue stamp. It should be noted that the filing fee is commensurate to the amount of the claim. According to the current rates, if the claim is Y10m (approximately US\$100,000), the filing fee is Y57,600 (US\$576); if the claim is Y100m (US\$1m), the filing fee is Y417,600 (US\$4,176). Because of this system, a plaintiff will sometimes claim only a part of the damages, especially if it is unrealistic to expect to receive the whole amount from the defendant. In the case of an injunction, the amount of the claim is calculated as follows in the Tokyo District Court:

amount of claim = {annual sales of the defendant or decrease in annual sales of the plaintiff} x {defendant's profit rate or plaintiff's profit rate} x (remaining period of the patents) x 1/8

Once a complaint is filed, it will be reviewed by the presiding judge and, unless obvious defects are found, the complaint will be served on the defendant. The service may be performed only by court clerks. Private persons, including attorneys, may not serve the complaint. Although it may vary from court to court, it usually takes a few weeks from the date of filing for a complaint to be served on the defendant. The first hearing date is set before the service of process and the writ of summons is simultaneously served on the defendant. The date is usually set after consultations with the plaintiff's attorney.

As a result, a defendant usually has a few weeks at most to prepare its case before the initial hearing date (this means that the initial hearing date is set a few months after the filing). The court requests that the

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defendant prepares an answer to the complaint and submits it to the court before the initial hearing date. Given the time constraints it is often very difficult for a defendant to review all the allegations in the complaint and to ascertain all of the facts. Therefore, the answer is often very brief and simply requests the court to dismiss the claim.

Security for court costs

Where a plaintiff does not have its domicile, office or place of business in Japan, upon a motion by the defendant, the court must order the plaintiff to provide security for the court costs. Where the plaintiff is from a country which is a signatory to the Hague Convention on Civil Procedure, to which Japan is a signatory, the security requirement is waived. As the United States, Canada and the United Kingdom are not signatories to the Convention, security is required from nationals of those countries. Generally, the costs here are limited to a summoned expert witness's fee, a third party witness's travel allowance, or the cost of an on-site inspection.

A defendant who has made such a motion may refuse to respond until the security is provided. However, once a defendant has pleaded orally or has made a statement in the preliminary proceedings with regard to the merit of the suit, such defendant is deemed to have waived the right for security.

The reform proposal tries to limit the defendant's right to require security. Under the terms of the proposal being considered, security would be unnecessary where the plaintiff has adequate assets in Japan.

Attorney's fee

Many Japanese lawyers charge in proportion to the amount of the claim, as provided for by the Bar Association's guidelines. Time charges are also allowed and this form of billing is common for those who work on international cases. Even successful parties in a litigation do not necessarily recover their attorney's fees from the other party. While Japanese courts will order such payments for tort cases where the attorney's fee is explicitly included in the claim, in many cases only a limited amount can be recovered.

Court proceedings

Traditionally, several hearing dates are used for argument and clarification of the allegation and defence, and evidence will be submitted by each party from time to time. Although the hearing date is literally called the oral argument date, written briefs must be prepared. Indeed, in almost all cases, no oral argument is made. Instead, written briefs are exchanged between parties on the hearing dates. Upon receiving the other party's brief, each party will prepare another brief for the next hearing date. Witnesses and expert witnesses may also be questioned on such dates. Dates for questioning witnesses are set once every two or three months. In all, it usually takes three to four years for an ordinary case to be closed. All documents, including evidence, must be translated into Japanese if they are written in a foreign language.

More efficient practice has been encouraged and some courts have been trying to expedite the procedure. For instance, in the Tokyo District Court, the preliminary proceeding has come to play a crucial role in the dispute resolution process. The preliminary proceeding is presided over by one or two judges, instead of three judges, and the point at issue is discussed and clarified in the informal setting of a small preparation room. After clarification of the issue in dispute, only appropriate evidence and witnesses are examined during the hearing. Because of the

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technical nature of patent litigation, such informal discussion is often found to be very effective. In addition, such procedure is considered to have contributed to speedier trials. In the discussion for proposed reform of the CCP, the question of whether these proceedings may be conducted in a place closed to the public is an issue under consideration.

Settlement may be attempted at any stage of the proceeding. Courts prefer to set a date for oral argument and settlement (Benron ken Wakai). On such dates, a judge will discuss the issue separately with each party and will try to arrange a settlement. Such discussions do not take place in an open court room, but in a small preparation room. It is felt that this informal atmosphere encourages efficient settlements. However, this practice is not provided for by the CCP and whether it should be authorized or not is one of the hottest issues being considered under the proposals for procedural reform.

The 1993 statistics of the intellectual property division of the Tokyo District Court show that 40% of cases were settled, 26% were withdrawn and 30% were given judgments.

Provisional measures

Since it takes such a long time to get a judgment, a plaintiff will often seek a temporary injunction. Such an injunction is generally handled by one judge in a more informal way. Where the probability of success on the merits of the case is high, and the necessity for a provisional measure is found when compared to the potential damage to the defendant, a temporary injunction will be granted upon the plaintiff's furnishing the required security.

Provisional attachment may be sought where damages are claimed and it is suspected that the defendant may lose its assets by the end of the suit. The provisional attachment order is usually rendered without giving advance notice to the defendant. A high probability of success and the need for provisional attachment must be demonstrated if such an order is to be granted. Moreover, the plaintiff will also be required to furnish security in order to receive the benefit of such a measure.

While the filing fee for such provisional measures is only Y1,500 (US\$15), irrespective of the amount of the claim or the assets subject to the attachment, such amounts are often reflected in the amount of security required of the plaintiff.

Discovery

Unlike in the US, the Japanese system does not allow extensive pre-trial discovery. In principle each party to the litigation has to gather evidence itself.

There is a preservation of evidence procedure, although this can only be used on limited occasions where the court concludes that the availability of evidence is at risk unless examination takes place before the ordinary course of the proceeding.

Japan does not have interrogatories. In the course of the litigation, one party may ask the other to clarify an allegation through the court. But at the very beginning of the lawsuit there is no way for one party to gather information from the other. One of the reform proposals has suggested the introduction of an interrogatory and it is likely that this provision will be adopted in the final enactment proposal, although it is unlikely that any penalty will be imposed on a party which refuses to answer. In certain cases, a party may demand that the other party or a third party

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produce documents. Where a party holding documents refuses to produce them, the court may deem the allegations of the demanding party to be true. But this is allowed only in the following circumstances:

- (1) where the party is in possession of a document referred to in the litigation;
- (2) where the demanding party is entitled to demand delivery or inspection of a document from the holder; and
- (3) where the document has been drawn for the benefit of the demanding party or refers to the legal relations between the demanding party and the holder.

In cases of patent litigation and some other intellectual property litigation, there are special provisions by which a party may demand production of documents relevant to the calculation of its damages.

Because of these requirements, parties often have difficulty in acquiring necessary documents. The courts tend to interpret the provisions broadly in order to ensure that the parties have access to enough information to protect their interests adequately. The authors of the reform proposal are trying to broaden the scope of documents which could be demanded, but this idea has met with resistance from business organizations which probably fear any potential diminution in their ability to protect trade secrets.

No protective order

Japan does not have a system of protective orders. There is no attorney's eye, only evidence or allegations. If a party wants to submit a certain trade secret as evidence to the court, it must also provide a copy of the evidence to the opponent. In addition, any documents submitted in the litigation are accessible to the public. This system has discouraged many companies from bringing lawsuits in Japan, as in some cases it would cost more to disclose a trade secret than to recover damages. The problem has been recognized and some organizations, including the Ministry of International Trade and Industry (MITI), have been trying to introduce a system of protective order. But the adoption of such a system appears to be unlikely during the present reform process of the CCP.

Article 82 of the Constitution of Japan requires that trials be conducted, and judgments issued, in public. The only exception to this principle is for those cases where a court unanimously determines that publicity would be dangerous to public order or morals. The issue of protective order and its relationship to the Constitution has not so far been extensively discussed or examined. The Constitution has not been amended since its enactment in 1946 and it is unlikely that Article 82 will be amended in the near future. It is expected that the issue will be discussed more extensively and, if consensus can be reached, an amendment to the CCP may be made.

In the proposed reform, it is likely that public access to the court records will be restricted where trade secrets or privacy are concerned. More detailed requirements are still to be examined during the course of the enactment process.

As a practical measure, the Tokyo District Court has been trying to utilize preliminary proceedings, which are not open to the public, or request that the parties submit draft briefs only, in order that the formal court records contain no trade secrets.

Presumptions

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The Japanese Patents Act provides for several presumptions by which a patent holder's infringement litigation is facilitated. Generally, in tort cases a plaintiff must prove:

- (1) infringement;
- (2) negligence or wilfulness; and
- (3) loss or damage to the plaintiff.

With respect to element (2), negligence of the infringer is presumed under the Patents Act.

As to element (3), the Patents Act provides for a presumption of the amount of loss incurred by the patent holder (although the actual loss must be proved). Where the infringing party makes a profit, the amount of loss to the patent holder is presumed to be the amount of that profit.

As stated above, the plaintiff can demand production of the documents necessary to prove the amount of the defendant's profit.

Alternatively, the Patent Act states that a patent holder may demand payment of an ordinary royalty rate from the infringing party.
No punitive damages

Japanese courts do not recognize punitive damages or treble damages. Only damages of a compensatory nature can be awarded.

Enforcement of foreign judgments in Japan

It should be noted that the issue of punitive damages will affect the enforcement of foreign judgments in Japan. When, for example, a case is brought against a Japanese company in the United States and treble damages are awarded, it may be the case that, if the Japanese company does not have sufficient assets in the US, the plaintiff will want to enforce the decision in Japan. Foreign judgments will only be recognized in Japan if the following four elements are fulfilled:

- (1) the foreign court had proper jurisdiction from the viewpoint of Japanese law;
- (2) proper service of process was made;
- (3) the judgment was not contrary to public order or good morals; and
- (4) there is mutual recognition of Japanese judgments by the courts of the country in which the judgment was originally handed down.

The plaintiff must file a lawsuit in order to enforce a foreign judgment and if the above elements are fulfilled, the court will authorize the plaintiff to enforce it.

However, where punitive damages are involved, the Tokyo High Court recently held that such damages are against public order in Japan and authorized enforcement only with respect to that portion of a foreign judgment representing compensatory damages (Tokyo High Court, June 2 1993, Hanrei-Jiho, vol. 1471, 89p; Tokyo District Court, February 18 1991, Hanrei-Jiho, vol. 1376, 79p.). In this case, the original foreign judgment was rendered in California. The Japanese Court found that the function of the punitive damages was essentially to prevent such torts and to give the plaintiff an incentive to pursue the case. Under the Japanese legal system, penalties of this nature are found under the criminal law and are not

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consistent with the Japanese system of damages under the civil law.

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